



POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO

840 Boonville
Springfield, Missouri 65801
Voice Mail (417) 831-8901
Box Number 44140

Minutes August 13, 2009

1. Call to Order

Homan called the meeting to order at 8:30 a.m. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Ken Homan	Chairman	X	
Beau Barrett	Citizen		X
David Carter	Fire	X	
Jim Edwards	Police	X	
Steve Fenner	Citizen		X
David Hall	Fire	X	
Ron Hoffman	Retiree	X	
Evelyn Honea	Deputy City Manager		X
Sheila Maerz	Human Resources		X
Mary Mannix-Decker	Finance	X	
Jim McCulloch	Police	X	
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law		X
Nikki White (NV)	Secretary	X	

NV = Non-voting

2. Approval Meeting Minutes – July 9, 2009 (open and closed sessions)

Homan stated that the minutes from the open and closed sessions from July 9, 2009 required the board's approval. Homan asked for a motion to approve the open session minutes for July 9, 2009 minutes as presented. Motion made by Hoffman; 2nd by Carter. Vote all: Yes.

Homan asked for a motion to approve the closed session minutes for July 9, 2009 as presented. Motion by Hoffman; 2nd by Hall. Vote all: Yes.

5. Approval of Return of Contributions

Brock Kraxner	Relinquishment	Police	\$ 6,301.05
Randall Blackburn	Age & Service	Police	\$ 42,414.69
Total			\$ 48,715.74

Homan asked for a motion to approve the return of contributions for one (1) age and service application (Blackburn), one (1) relinquishment (Kraxner) totaling \$48,715.74. Motion by Hall; 2nd by Edwards. Vote all: Yes.

6. Review of Retirement Calculations

Surviving Spouse

Name	Years of Service	Monthly Pension Amount	Partial Pension Amount	Survivor's Partial Pension Amount	Survivor's Pension Amount
Johnny Harris	25.17	\$3,509.18	\$339.60	\$2,332.48	\$2,582.39

Hall made a motion to approve Johnny Harris' surviving spouse calculation pending receipt of the application, death certificate and marriage license. 2nd by Carter. Vote all: Yes.

Age & Service

Name	Dept.	Years of Service	Monthly Pension Amount	Partial Pension Amount
Randall Blackburn	Police	25.03	\$3,901.63	\$2,643.04
Richard Kuhn	Fire	24.49	\$4,606.71	\$ 307.11

It was noted that Blackburn's actual hire date was October 6, 1986. He purchased two years and two months of military service. Homan asked for a motion to approve the calculations. Hall made a motion to approve Kuhn and Blackburn's pension calculations. 2nd by McCulloch. Vote all: Yes.

3. Approval of Financial Statement Ending June 30, 2009

Homan asked Mannix-Decker to review the June financial statement.

Mannix-Decker stated that although they have a good handle on the June numbers, the board needs to keep in mind that the auditors occasionally ask for a reclassification. She reported on the following items of interest:

- Cash balance was \$9,673,092.
- Continuing transfers into Pictet and SSgA as Reina outlined for a 6-month period.
- Brandywine was up \$104,411 for the month.
- Galliard was up \$547,219 for the month.
- Pictet was down \$214,658 for the month.
- State Street Global - currently moving out of the lending fund (Wilshire 500 SL Fund) into the non-lending fund (Willshire 5000 NL Fund). The lending fund was up \$122,934. The non-lending fund included the \$731,263 transfer and realized a gain of \$1,263.
- Net assets were \$112,494,192 at the end of June compared to \$128,085,142 in June 2008.
- Employee Plan 1 contributions totaled \$274,603.
- Employer Plan 1 contributions totaled \$1,531,081 of which \$316,000 is the AT&T settlement. The total settlement was \$10,264,863. The Employer Plan 1 contributions number also includes \$321,745 in employee accrued time that will be paid in July which is a new fiscal year.
- Employee Plan 2 contributions totaled \$19,563 and Employer Plan 2 contributions totaled \$115,565.

- Prudential Financial totaled \$7,557,095 which is a loss of \$1.3 million for June.
- Loss in market value was \$717,578.
- Total additions for the month of June were \$1,260,114.
- Retirement benefit payments totaled \$1,309,973 and return of contributions totaled \$669,668.
- Administrative expenses totaled \$10,456.
- The net decrease in plan assets was \$729,983.

Homan stated that without Prudential there would have been a gain of approximately \$600,000. He calculates that Prudential is down around 40% overall. The target allocation is 7.5% and has been as high as 12% when the \$5 million distribution was put on the queue. He added that no distributions would be made in 2009 and the board needs to talk about taking \$5 million off of the queue and discussing it with Reina.

Homan asked for a motion to approve the financials for June 30, 2009. Motion by Hoffman; 2nd by Carter. Vote all: Yes.

Hall mentioned that the June numbers would be used for the actuarial. Mannix-Decker confirmed. Homan stated that June 2009 compared to June 2008 was down by \$15,590,950 and the main adjustment was the \$10 million that came in from the AT&T settlement. Hall added that the cash flows were basically a wash. Contributions almost exactly equal the deductions so virtually all of the change in position was the change in assets.

7. New Business

b. Replacement laptop computer

Hall reported that the old laptop was replaced a few months ago. He suggested surplus the old computer. He added that the Pension Board's copier can be surplus as well. The board is currently utilizing the Fire Department's copier and the cost per copy is being billed back rather than having contract equipment. He suggested using the City's surplus and the revenues come back to the fund. Homan asked if there was some salvage value to the two pieces. Mannix-Decker said the Finance Department runs the surplus program. IS cleans the computer system, but she said they aren't getting any salvage value. Homan asked if the board would be in favor of donating the equipment to a charity. Mannix-Decker recommended listing them on the surplus web site first and then donating if the items don't sell.

Hall made a motion to list the old laptop and copier on the City surplus site. 2nd by Edwards. Vote all: Yes.

c. Smart System Update

Homan asked Mannix-Decker to provide an update on the accounting program utilized by the pension system. She stated that the Finance Department utilized a Smart Database System for retirement calculations and to track information. There was concern about the stability of the product and the conversion to Access has taken place. Hall asked if there was anyone besides Glenda Hudson who is trained to operate the system. Mannix-Decker said this is something they are working on.

d. Converting Pension System hard files to digital form.

Hall updated the board that the print shop has scanned all of the minutes from 1946-2007. They are working on making them searchable. They are also working on the actuarial reports and other annual

statements. Homan asked if the actuarial reports would go on the web site. Hall stated that was a board decision.

Hall made a motion to post all actuarial reports to the web site as they become available. 2nd by Carter. Vote all: Yes.

Homan asked about the rest of the files including the investment reports. Hall stated that there are several filing cabinets full of quarterly investment reports, active employees, retirees and a closed filing section for people who are no longer part of the system. He added that all of the information can be scanned, but it would be difficult to add information to each person as they go through the different stages of retiring, surviving spouse, etc. He added that there is now a redundant system in the Finance Department so that if something happened the information could be reconstructed. Hall added that all of the employee files could certainly be scanned, but from a practical matter he's not sure of the benefit and also how to keep each person's file current. There are also some older files that need to be sorted to determine what needs to be scanned for preservation purposes.

Rushefsky asked Sheppard if there is a reason other than litigation purposes to save the information for more than 10 years. Sheppard said he assumes the board doesn't have a separate document retention policy, but the City as a whole has a policy that they could share with the board. Rushefsky added that the hard copies have been retained. The question is whether the files should be duplicated electronically. Mannix-Decker said City files are generally not duplicated this way. She follows the State's requirements. Sheppard said that he thinks as long as files can be indexed, retrievable and reproducible and are backed up some place in case of a fire as a secondary source is the main concern. Hall said he would bring some samples. He thinks some of the files such as thank you letters for donations in the 1940's can probably be destroyed. Rushefsky asked if the personnel's personal files are duplicated somewhere else. Mannix-Decker said the Finance Department retains a copy of the retirement calculation. Peggy Thompson said the Human Resources Department doesn't have any files relating to the pension system. Mannix-Decker said the Finance Department also has salary history reports, calculations and any other correspondence related to the retiree.

Homan asked Hall to do research on the files and give recommendations at the next board meeting. White informed the board that the web site had been updated with all of the current financial information, but in the transfer to the new site the updated information was lost. She is working with the appropriate staff members to resolve this.

Homan asked for a motion to move to closed session at 9:10 a.m. Motion by Hall. 2nd by Hoffman. Vote all: Yes.

Open session resumed at 10:50 a.m.

f. Discuss the need to document the policies and procedures of the Pension System

Homan stated that the board needed to have discussion pertaining to the documentation of the policies and procedures. It was discussed by the task force that not enough information was being received such as tax returns as a part of the process. He added that this information was actually already being obtained, but the system needs to have processes in place. A lot of processes and procedures are scattered around in past minutes of the board and they need to be assimilated into a policy and procedures manual.

Homan stated that the board needed to start initiating some disability reexaminations. He added that this hasn't been done for several years and it needs to be reestablished. He asked for comments to be sent to him prior to the next meeting as item (f.) is being tabled until the next meeting.

h. Response to the Citizen Task Force recommendations.

Homan stated that the board would not give formal recommendations. The board supports anything they are doing that solidifies the funding of the pension fund.

i. Disability Appeals Ordinance Change proposal.

Homan stated that this was a reminder that this agenda item was tabled at the February 12, 2009 meeting. The task force and Council consideration of the funding is not completed at this time. This item will remain tabled unless somebody sees a necessity to reach a decision before then.

j. MAPERS Conference Update – tabled until September meeting.

k. SPOA Response

Homan reported that he visited with Mike Evans a week ago to assemble a meeting for Homan to deliver the board's response letter. Homan stated that he would be glad to deliver the response, but wasn't going to push it unless the board sees a particular need.

a. Quarterly Investment Report – Gino Reina, Segal

Reina passed out an Analysis of Investment Performance through June 30, 2009 (on file). He reported on the following items of interest:

- Invested Assets as of March 31, 2009 were \$91,488,982.
- Invested Assets as of June 30, 2009 were \$102,585,909.

Reina stated that stocks have been going up on a daily basis with the exception of a couple of weeks in June. The S&P was up 3% for the year through June 30, 2009. The S&P 500 is up 14% for the year.

Asset Allocation

- Equity Segment is at 35.22%. The target is 40%.
- Bond Segment is at 26.30. The target is 21.75%.
- International Equity is at 16.97%. The target is 20%.
- International Fixed Income is at 14.15. The target is 10.75%.
- Real Estate is at 7.37% which is down from 9.69% in March due to depreciation. The percentage is now in line with the target of 7.5%.

Reina reminded the board that a rebalancing program has been implemented starting at the end of June. The program moved the over weights to fixed income to equity managers in a slow methodical basis. He stated that has benefited greatly as the equity markets continued to rally in July with the S&P up 9%.

Homan stated that a cash allocation is not included in the report and there's difference of about \$10 million in the June 30, 2009 amount of \$102,585,909. He added that this accounts for the extra

weighting that's not been noted. Reina added that the extra 10% cash would put the board more in line with the target asset allocation.

Asset Allocation & Performance

Reina stated that the plan returned 11.55% for the quarter which was in line with the benchmark. The equity segment represented by the Dow Jones Wilshire 5000 returned 16.92% for the quarter. International Equity returned 33.04% which was about 7% above the benchmark. He stated that Pictet has had some performance difficulties. Since they've been hired back in May of 2007, they've started to bounce back significantly showing outperformance for the quarter. Galliard was up 4.89% placing them in the top fixed income managers for the fiscal year. They were hired on June 30, 2008. For six months they underperformed like many other fixed income managers, but they have made up for the underperformance in the first six months of this year and are now ahead of the benchmark unlike other managers who underperformed. The main reason for their performance was their overweight to small business administration securitized loans. That particular part of the market has valued significantly as a major part of their outperformance. Secondly, their allocations to corporate bonds.

Reina stated that Brandywine also showed improvement for the quarter. They were up 7.27% which was ahead of the benchmark by 6.21% placing them in the top half of the managers. For the fiscal year period they are behind at 2.28% vs. 6.64%. He noted that even though they are behind the benchmark by over 4% that they still place in the top half of managers within their peer group. He added that he doesn't want to make it seem as an excuse for their underperformance, but more than half of the managers that tried to do the same thing actually did worse. He said this doesn't happen too often, but it is the case in this situation.

PRISA is down 13.25% for the quarter versus the benchmark. The NCREIF ODCE underperformance continues. Reina stated that this is not surprising considering the commentary they have provided over the last six months on the commercial real estate market. He continues to have conversations with them. In June communication was sent to the board regarding the NCREIF ODCE benchmark. He stated that the NCREIF ODCE benchmark is the more up-to-date benchmark. This benchmark is comprised of the 14 largest open-end funds. PRISA is underperforming their peers as it relates to the real estate market. He added that this is a manager they would put on watch. This is a manager that even though they are following closely, we should possibly get a portion of the money out when there's an opportunity. As the commercial real estate market settles down he would recommend a replacement search.

Homan asked if Reina still recommends a 7.5% real estate allocation. Reina responded that he still thinks the allocation is correct and long term makes a lot of sense. Even though we are currently seeing large negative numbers, they continue to have 5-6% income. He stated that it was more the manager than the asset class. Homan questioned whether the \$5 million that is on the queue for distribution should be kept there. Reina said it should definitely be kept on the queue. In talking with PRISA, they most likely won't be able to pay the \$5 million until 2010. He highly doubts if there will be a situation in September that they say here's your \$5 million, but if they do it should be taken off the queue.

Hall asked if since the queue is there do we go ahead and put the sell or distribution on all of the rest of the funds so that the board can move to another one. Reina replied that he would be ok with doing that with the entire \$13 million. He added that Prudential will give a call approximately three weeks before to notify that they have the money and ask if it really needs to be moved. The conversation Segal is having with a lot of clients as it relates to the queue is that the queue is created by the

rebalancing function. A lot of plans used to be 11.5% and now are down to 7.5% and rebalancing is no longer necessary. He added that a lot of funds have actually taken off their request for money. Having said that, it may make sense to put the board at more of the fore front if it is done now to be in a position ahead of the queue if people are trying to get out. Hall asked if the main concern is that PRISA will not realize the returns because they will be underperforming the others in their market. Reina stated that it is really the magnitude versus their peers. When looking at the other 14 largest open end funds, they are not competing against managers that are buying only four buildings. They are all looking for the same high quality office, industrial, multi-family type buildings and when you have this level of disparity that's where the concern is. If they were 1-2% behind they could make it up, but 7% is very difficult. Hall added that his concern is that if a move is made to a new manager just as they begin to recover. Reina stated that he has exposure to all open end funds and they have all been pretty consistent and aggressive with the writing down of their valuations stating that certain properties are now worth 10-15% less. All are getting independent appraisals every quarter versus annually. Price Waterhouse Coopers is the industry standard for appraisals and they all have access to the PWC database. Reina added that there is a similarity in the aggressiveness of the numbers and when he sees the -9.9% he thinks it representative of what everyone feels is running down PRISA's assets appropriately.

Homan stated that at the end of the first quarter PRISA said they expected another 20% decrease and ended up with a 13% decline the next quarter. He asked Reina if they had given some guidance as to what to expect in the future. Reina said they are saying they will still be negative in the third quarter, but in the single digits versus double digits. They are hoping fourth quarter will have some sort of turn around. The government PPIP program which is both private and public investments tried to purchase the toxic securities off of the balance sheets of banks. A lot of those toxic assets were in the commercial mortgage arena. The purpose of the program is to liquefy and try to get a fair value for those securities. If it really does fulfill that purpose then they are hopeful more commercial mortgages will start to be originated again. He said that today you just can't get a mortgage on a commercial building. So if you can't get a loan they you don't have people buying and selling buildings. With this program they are hoping banks will feel more comfortable issuing mortgages again. Appraisers are now saying there's no upside for over estimating the value of a property.

Homan asked Reina to break in his report.

e. Update from Finance Department on income verification process.

Homan asked Mannix-Decker to provide an update on the status of the income verification process. Mannix-Decker reported that 28 of the 42 letters sent to fire employees have been received and 36 of the 49 letters sent to police employees have been received. She added that some of the information received is not complete. Some people have blacked out information on their tax forms and some have not provided their spouse's W-2. The letters haven't been sent out to anyone 65 and over. There are 31 people over 65 that are receiving a disability payment, but haven't been sent an income verification letter. Hall questioned why they aren't receiving the letters. Mannix-Decker said she doesn't like the response, but Glenda Hudson said that this is the list the letters were sent to before and those 65 and over had been excluded previously. Homan stated that this is not in the ordinance. Mannix-Decker said she isn't sure that was the intention and that's why she wanted to bring it to the board's attention. She added that almost all of them are duty-disabilities with the exception of one.

Homan said the question is does the board maintain a hard line and cut off distribution to those who haven't sent in the information or sent in incomplete information. Mannix-Decker said the board

adopted a policy at the April meeting and handed out copies for those present (on file). The policy states that if the information hasn't been received by September 30, the member's name will be provided to the City Attorney's office for follow up. She said her department would try one more time on those who sent incomplete information and if they don't get a response she would propose putting them on the list with those who haven't replied at all to be given to the City Attorney's office. She has already sent a friendly reminder, but the second letter will state that they have until September 30th or it will be turned over to the City Attorney's office. Rushefsky said she may want to consider adding wording about payments ceasing until the information is received.

Homan asked if anyone saw a reason to go to the City Attorney to make sure he's going to be willing to uphold the policy. Mannix-Decker said the policy was written during the time that Wichmer was the board's attorney so she's assuming that will change. Hall stated that the board could take a look at this next month since the meeting will be held before the deadline. Homan asked Mannix-Decker if she needed any board guidance to say this is a good policy and procedure that needs to be followed. Mannix-Decker stated that the policy has already been adopted by the board so a second letter will be sent to those who haven't responded at all and to those with incomplete information. She will update the board at the September meeting. Hall said three groups need to be contacted; those who haven't responded at all, those who provided incomplete information and thirdly those who are 65 years of age and over.

Homan asked if the disability subcommittee formed in 2008 had any remaining responsibilities or can the committee be closed. He said he understands that the disability ordinance change is a recommendation of the subcommittee so it probably needs to remain open until that is resolved.

Hall asked if there was any other business to be brought to the board's attention before resuming Reina's report. Carter asked when the 2008 income verification letters would be mailed. Mannix-Decker stated that the information is from the 2008 tax year and this process will be resumed next May for the 2009 tax year.

Mannix-Decker exited the meeting at 11:22 a.m. and did not return.

Continuation of Quarterly Investment Report – Gino Reina, Segal

Reina continued the discussion of the possibility of moving the PRISA \$5 million request for distribution. Homan asked if there was also a suggestion of putting the whole amount in for liquidation. Reina said he would support it. Homan asked for a motion.

Hall made a motion to put the remainder of the PRISA funds into the queue for distribution. 2nd by Edwards. Vote all: Yes.

Reina stated that they would start running a search analysis for a new real estate manager. Hall said that he wouldn't do that yet. He said if they are being put on a watch the board may want to wait a little longer. Hall added that should things turn around for PRISA the board may decide to keep them. Reina said he was just suggesting starting the process as it may take awhile.

Homan stated that there needs to be discussion as to whether direct real estate is something the board wants to get back into because of the liquidity issue. He said he'd like to start the discussion again about the form of real estate that is invested. Reina said he would put together a detailed presentation. Hall said that he recalled there being a commitment to a 10-year period and there was going to be

virtually no liquidity, but the whole point of real estate is about time. His concern is that only a short period of time has elapsed and now there's consideration given to jumping out because of a bad experience. He added that this is a buy and hold strategy on real estate.

Rushefsky said she interpreted Reina's statements regarding PRISA to say that the deferential is not a function of the market as much as it was judgment. Reina said that is correct, PRISA's relative judgment based on the other managers not being as negative as well as the disparity of the underperformance. Rushefsky said that two years ago an evaluation stated that PRISA was a real solid commercial investment that was doing really well and now all of a sudden we are questioning their judgment. She asked if PRISA's managers have changed. Reina said there hasn't been a change in managers and the investment team is still very stable. He said that their parent company, Prudential, has had some issues. Obviously the insurance aspect has nothing to do with the real estate investment decisions, but you never know how that trickles down to all of the employees of an organization. He said it's those types of ancillary things that give him a pause. They just need to be looked at closer that they were before. Reina will continue to have conversations with PRISA and make sure that the reasons they were hired are still in place.

Rushefsky asked to what extent PRISA was damaged by the Wall Street Journal article. Reina said he didn't think the article had any impact on what they do. They have stated that the forward commitment part of their portfolio is still of concern and that is one of the main reasons of the underperformance seen on the board's reports. He added that they aren't doing forward commitments right now, but they may in five years when things turn around just not to the same extent. Hall said he's betting that the majority of the properties that they were holding at the time of purchase, they are still holding and there's not a significant change. The board likes the overall strategy and the fact that they were low leveraging. The forward commitments are one of the ways they were getting additional returns because they were locking in on cheaper prices. While right now that is not a good thing, but that's exactly what made them good before. Hall's concern is getting rid of them when nothing has really changed in their strategy for which they were hired. Reina stated that vacancy rates are very low, occupancy rates are high and everything else is still in place. Homan said the real red flag as discussed in May is when PRISA put themselves in a position to cause a cash flow problem and they had to fire sell their existing properties. Reina stated that there isn't a fire sell of properties, but they have to raise money, bottom line.

Wells Notice – SSgA

Reina stated that SSgA received a Wells Notice as it relates to one of their active short term fixed income funds. The concern was related to whether SSgA misrepresented the conservativeness of the fund. He said this was not new. SSgA stated earlier in the year that they put aside \$625 million to satisfy and settle all the potential lawsuits related to the short term bond fund. To date they have paid out about \$425 million of lawsuits/settlements on the short term bond fund. Back earlier in the year when they talked about the \$625 million they implied that it was enough to satisfy all the settlements of all the lawsuits. A quarterly statement said the \$625 "may" cover all the settlements and lawsuits related to the fixed income fund. Having said that, they still maintained that even if it exceeds \$625 million they don't see a situation where it would impact the ability to run their business. Reina added that the largest one still outstanding is the Prudential lawsuit of \$80 million.

Hall exited the meeting at 11:35 a.m. and didn't return.

Homan asked Reina to explain the move from securities lending to non-securities lending with SSgA. Reina said the index fund originally invested in had securities lending in it. The securities lending part of the program was there to provide additional income to the fund anywhere from 2-10 basis points extra return over a given year. The securities lending program was under some pressure like many other securities lending programs. Mechanically when you're involved in securities lending, what you're doing is lending out your shares that you have in your portfolio to institutions so they can short the stock. The reinvestment of the collateral was under some pressure as they invested in some structured product that was trading at 90 cents versus 100 cents on the dollar. SSgA back in May implemented a withdrawal restriction within the board's SSgA index fund. The board is only allowed to withdraw 4% of the fund every month and that was cumulative. He added that now with the rebalancing, the only prudent thing to do is to put the funds in a non-securities lending fund. Reina said that SSgA is pretty close to lifting the 4% restriction and making it a higher number.

Homan stated that some new regulations and restrictions have been implemented in the securities lending process that make it less risky. He asked Reina if it was adding enough income that the board should reconsider moving out of it. Reina said that the board is moving out of it right now and he thinks in the long term it's not worth the headache of being in that type of securities lending fund at that level. He said doing securities lending at a plan level is a different discussion.

Homan asked for any questions concerning the quarterly investment report. None noted.

10. Adjournment

Homan asked for a motion to adjourn the meeting. Motion by Carter; 2nd by McCulloch. Vote all: Yes.

The meeting was adjourned at 11:40 a.m. on August 13, 2009.